Required Report - public distribution

Date: 08/22/2005

GAIN Report Number: MX5074

Mexico

Agricultural Situation

Mexico Announces Retaliatory Tariffs in Response to Byrd Amendment

2005

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Report Highlights:
On August 17, 2005, Mexico's Secretariat of Economy (SE) announced it will implement Mexico's retaliatory actions in response to the WTO ruling on the Byrd amendment. The products involved are classified in tariff codes 1704.10.01, 1704.90.99, 1901.90.05, 2204.10.01, 2204.21.01, 2204.21.02, 2204.21.03, 2204.21.04 and 2204.21.99.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Mexico [MX1]
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Introduction: This report summarizes two official announcements published in Mexico's "*Diario Oficial*" (Federal Register) on August 17, 2005.

Disclaimer: This summary is based on a *cursory* review of the subject announcement and therefore should not, under any circumstances, be viewed as a definitive reading of the regulation in question, or of its implications for U.S. agricultural export trade interests. In the event of a discrepancy or discrepancies between this summary and the complete regulation or announcement as published in Spanish, the latter shall prevail.

FAS/Mexico's Executive Summary: The Secretariat of Economy (SE) announced in the *"Diario Oficial"* (Federal Register) the temporary modification of duty rates in relation to U.S. merchandise classified in the tariff sections indicated below in response to the WTO ruling on the Byrd Amendment. According to the decree, the tariffs are effective August 18, 2005 and will be in force for 12 months, unless the U.S. modifies the Byrd Amendment in accordance with the WTO decision, in which case, the tariffs will return to the previous levels.

H.T.S	Description	Import tariff	U.S. Export Value
1704.10.01	Chewing gum, including those covered with sugar	9%	$15.9 million
1704.90.99	Chewing gum, Other,	9%	$23.4 million
1901.90.05	Preparations made from milk products with a milk solids content in excess of 50% by weight, except those outlined in 1901.90.04	30%	$143.8 million
2204.10.01	Sparkling wine	20%	$1.4 million
2204.21.01	Strong aged wines, whose alcoholic strength exceeds 14º Gay-Lussac at a temperature of 15º C, in clay, crockery or glass containers.	20%	$270,000
2204.21.02	Red, rose or white wine, whose alcoholic strength does not exceed 14º Gay-Lussac at a temperature of 15º C, in clay, crockery or glass containers.	20%	$4.8 million
2204.21.03	Grape wines, called fine wines, claret types whose alcoholic strength does not exceed 14º Gay-Lussac at a temperature of 15º C. For red and white wines, minimum of 11.5º and 12º respectively. For Rhine type wines, a minimum of 11º.	20%	$4,000
2204.21.04	Champagne: other wines containing carbonic gas	20%	$25,000
2204.21.99	Other	20%	$260,000
2204.29.99	Other	20%	$1.4 million

FAS/Mexico Analysis:

In discussion with various industries representatives, the tariffs are expected to have a varying degree of impact on the affected products.

Dairy Blends:

The retaliation of a 30 percent tariff imposed on dairy blends under tariff code 1901.90.05 will be imposed on the first 29,400 mt imported into Mexico, with the tariffs reverting to the 2003 published levels (0 percent under NAFTA) after that amount has been imported, although it is uncertain that imports subject to the 30 percent tariff will reach the 29,400 mt level due to the increased cost. Mexico's dairy products industry informs us that there are limited substitutes for this product because of the milk powder content. Other similar products do not contain the required milk solids required by the industry in their processes. The only substitute would be non-fat dry milk or whole milk powder. It is possible that if the retaliatory measures continue with the application of 30 percent on dairy blend preparations, the industry could resort to using milk powders, which will enter Mexico in 2006 at 23.5 percent duty and 11 percent duty in 2007 under NAFTA.

Mexico's National Chamber of Dairy Products Industry (CANILEC) is in total disagreement with the Secretariat of Economia's (SE) establishment of a tariff the for the following reasons:

1. CANILEC finds no distortions in the domestic market for fresh fluid milk that would motivate the GOM to impose a duty on this important raw material for the dairy industry, in which domestic production only accounts for 70 percent of demand.

2. CANILEC has demonstrated that the current level of imports of dairy based preparations only complements national production and has demonstrated that there are no year-end inventories of this product that would cause concern to the domestic industry.

3. CANILEC feels that this measure will affect the Mexican industry and consumers more than it will the U.S. since the elevated cost of the product will be bourne in its entirety by the Mexican industry and consumers.

Wines

SE also decided to impose a 20 percent import tax on U.S. wines under tariff code 2204 as retaliation to the U.S. Byrd Amendment. According to the Wine Institute representative in Mexico, as well as some importers, wine sales are expected to drop at least 35 percent; however, wine will still continue to be imported. U.S. wine has faced no import tariffs since 2003, enabling it to compete with other countries like Chile. U.S. wine imports were expected to grow over the long term, in part by the full implementation of NAFTA, but also the growing awareness of wine and wine culture in Mexico. (For additional information on the Mexican wine situation see report MX 4320)

All alcoholic beverages sold in Mexico are subject to two different taxes: 1) a 15 percent value added tax, and 2) a Special Tax on Products and Services (Impuesto Especial de Productos y Servicios-IEPS) which is levied according to the alcohol content of the product.

IEPS TAX LEVELS ON ALCOHOLIC BEVERAGES
(Alcoholic Beverage and Percentage of Tax Level)

ALCOHOLIC BEVERAGES	IEPS TAX PERCENT
With alcohol content of up to 13.5 percent	25
With alcohol content from 13.5-20 percent	30
With alcohol content above 20 percent	50

Source: Secretaria de Hacienda y Credito Público (Ministry of the Treasury)

Therefore a $100 peso bottle of wine would pay 20 percent tax, plus 25 percent IEPS tax, plus 15 percent VAT resulting in a price of $172.50 pesos, whereas before the import tax, the price was $143.75 pesos.

The additional 20 percent increase in prices the tariff is expected to create will put the U.S. at a distinct disadvantage with its competitors. Most Mexican consumers of wine make their purchasing decisions based first on price. In addition to facing stiff price competition from European and Chilean wines, U.S. wines are competing against the quality image and long-standing tradition of European wines in Mexico. Those consumers who are not familiar with the high quality of U.S. wines will choose a national brand, or a Spanish, French, or Chilean wine, due to the perceived quality and, now, the increased price disparity.

However, U.S. wine that has been promoted in well-known resort areas like Los Cabos, Puerto Vallarta, and Cancun, where restaurants are used to having a reasonable range of good quality wine, could still continue importing a large volume of U.S. wine. In fact, the Wine Institute will continue to have wine promotions in resorts, as well as combine efforts with other U.S. products in seminars and food shows that include wine tasting.

Chewing gum:

The Coordinating Council for Food and Beverages within the National Chamber of the Transformation Industry (CANACINTRA) expects that there may be a slight increase in price for imported chewing gum that would affect consumers, as current prices may have to be slightly adjusted due to the 9 percent duties now levied on products under tariff codes 1704.10.01 and 1704.90.99. However, the new duties applied to chewing gum will most likely cause only a slight drop in imports, as only a few more price sensitive consumers may turn to other types of candies, such as breath mints, if prices increase.

Important Dates
1. Publication Date: August 17, 2005
2. Implementation Date: August 18, 2005
3. Validity Period: For twelve months after date of publication.

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Internet Connections
FAS Mexico Web Site: We are available at http://www.fas-la.com or visit headquarter's home page at http://www.fas.usda.gov for a complete selection of FAS' worldwide agricultural reporting.

Useful Mexican Web Sites: Mexico's equivalent of the Department of Agriculture (SAGARPA) can be found at www.sagar.gob.mx and Mexico's equivalent of the Department of Commerce (SE) can be found at www.sde.gob.mx These Web sites are mentioned for the readers' convenience but USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with the information contained on the mentioned sites.